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27 May 1966

MEMORANDUM FOR: Chief, WE/DDP

SUBJECT : IRG/SIG Matters

1. Attached is a copy of comments we prepared today on an item added at the last minute to the SIG agenda for next Tuesday.
2. Again, the comments had to be done hurriedly, because, it seems the SIG never does anything except at the last minute. I am afraid we will ever more frequently be involved in providing this sort of guideline for Helms and the Director.
3. The IRG probably was not concerned with this Fiat-Eximbank problem, but I am aware that, since my visit to you several weeks ago, I have not received any of the IRG agenda, minutes, or papers which I had expected you would start sending to me.
4. I share your view of the whole affair as a big waste of time, but unfortunately we get involved from time to time, and, your help is needed in keeping us posted on what is going on so that we may have as long a lead time as possible to prepare for and think about action we may be asked to take.

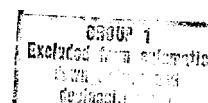
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Attachments:
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Technical Support-Export Bank Loan for Fiat-Russian Plant

The Bank has asked for foreign policy guidance in considering a loan of up to \$50 million to the (Istituto Mobiliare Italiano) for the purchase of U.S. machine tools for installation in the plant Fiat is to construct in the USSR.

The Fiat arrangement with the Russians involves a \$600 million transaction, \$300 million of which is to be local currency, supplied by the Russians, and the remaining \$300 million would be foreign exchange costs provided on a loan basis by the Fiat people through IMI.

The plant would produce only passenger cars and these at the rate of 2,000 a day. It is expected that the product would be a four-cylinder car like the Fiat 1200.

The IMI financing will be in the form of a \$300 million loan to Russia repayable over eight and a half years commencing in 1971. Interest will be about 5 1/2% and there is only a small grace period after the final drawdown on the loan will not be consummated until 1970.

Fiat has indicated that about \$200 million of the loan would be used for capital equipment purchased in Italy, but that about \$100 million of foreign purchases, including up to \$50 million of U.S. purchases (machine tools), would be required. IMI would like to borrow the amount of U.S. purchases from the Ex-Im Bank.

The Bank has informed the Russians that they are having difficulties with this transaction because it requires the Bank doing indirectly what it can't do directly (i.e., lend to the Russians).

However,

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However, the Bank has indicated it is prepared to look at the proposal but it first needs to raise it at a political level in the United States Government. The Italians claim that they had already received U.S. political clearance for the deal with the Russians; but the Bank has correctly pointed out that it is one thing for the U.S. Government to give political clearance for a deal in which it is not involved and another when its own participation is requested.

If the Bank does go ahead and loan money to IMI, it would be on terms no more favorable than IMI's loan to Russia.

Action Recommended:

The Bank now desires political guidance as to how it should handle the Fiat/IMI request. Should they turn it down because it might be construed as an indirect loan to Russia? Or, given the impact of the project on Russian consumption habits (and its attitude toward the West), together with the fact that the borrower is the Bank's old friend IMI, is it in U.S. interests to proceed and make the loan?

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STATINTL

**SUBJECT: Some Economic Implications of Possible Export-
Import Bank Loan for Fiat-Russian Plant**

General

1. Fiat will attempt to meet Soviet needs with Italian built equipment to the extent possible, especially in view of the depressed state of the Italian machine tool industry. In the case of certain highly specialized equipment, however, the Soviets will almost certainly specify items of U.S. or other foreign manufacture; in other cases, Fiat will recognize Italy's inability to design and manufacture certain types of highly specialized machine tools economically. Fiat itself uses U.S. machine tools in its Italian plants.

2. \$50 million appears to be a reasonable value for the equipment likely to be purchased by Italy in the U.S., although Prof. Valletta suggested that the sum would be \$30 million (but could be more) in a memo to Franklin D. Roosevelt Jr. this past April. Fiat can be expected to order roughly \$20 million worth of equipment even without a loan. With a loan and favorable delivery conditions quoted by U.S. machine tool builders, the total could exceed \$50 million.

Machines that would probably be purchased in the U.S.
even without a loan

3. Fiat will almost certainly purchase Gleason bevel gear cutting machines and Le Blond crankshaft lathes in the U.S. These machines are highly specialized and not available from other Free World suppliers. While the USSR has attempted to copy these machines in the past when U.S. firms were denied export licenses, their efforts were costly and not very successful. In addition, Fiat is quite likely to purchase highly specialized camshaft and crankshaft grinders from the Norton and Landis Tool Companies, and some heavy body presses.

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Additional orders the U.S. would probably receive by granting a loan

4. The Soviet plant will require about 20 press lines worth \$25 million. Some of the presses for these lines will have to be produced in the U.S., but most can be produced by U.K. licensees. Without a loan, Fiat may specify that nearly all of the presses be produced in the U.K. Delivery times are also important. U.S. builders, principally U.S. Industries and Danly, are now working at capacity, and may not be able to meet Fiat's delivery requirements. They can, however, farm out some of the business to the U.K. Nearly all of the body presses in Fiat's Italian plants were produced in the U.S.

5. Fiat may purchase automatic transfer lines in the U.S. U.S. producers, however, are working at capacity. Since alternative sources are readily available in other countries, Fiat is likely to turn to them if it cannot secure prompt delivery from the U.S.

Possible Export of Technology

6. The equipment likely to be purchased from the U.S. embodies advanced technology, and is subject to export licenses. The Soviets could acquire this technology in other ways, however, e.g. by purchasing comparable equipment from Western Europe, by purchasing from European licensees of U.S. manufacturers, and by utilizing readily available technical data. It is not lack of access to this technology which has heretofore prevented the USSR from manufacturing its own equipment, but the cost of copying U.S. designs for a limited Soviet market.

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DEPARTMENT OF STATE
EXECUTIVE SECRETARIAT
Senior Interdepartmental Group

SIG file

May 26, 1966

AGENDA

Ninth Meeting - May 31, 1966, 4:00 p.m.
(Carried over from May 24, 1966)

- not yet received in CIB*
- A) (4:00 p.m.) Export-Import Bank loan for Fiat-Russian plant--(Paper will be circulated later). The question before SIG is that of providing foreign policy guidance to the Bank on its taking under active consideration a loan of up to \$50 million to the IMI (Istituto Mobiliare Italiano) for the purchase in the United States of machine tools for use in the automobile plant which Fiat will build in the Soviet Union. (SIG will be joined by representatives of Treasury, Commerce, and Export-Import Bank.)
- attached*
- B) (Approximately 4:30 p.m.) Antigua Deep Water Project-- See attached Memorandum. (SIG will be joined by a representative of NASA and the Export-Import Bank.)
- C) (Approximately 4:45 p.m.) Military Aid Program for Tunisia--Appropriate documents distributed last week.

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[Signature]
Harry H. Schwartz
Staff Director, SIG

Enclosure

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DEPARTMENT OF STATE
EXECUTIVE SECRETARIAT
Senior Interdepartmental Group

Y/OKR
CA/EUR
DDI

May 19, 1966

Record of Agreements and Decisions

Meeting of May 17, 1966

Present:

The Under Secretary of State
(Chairman)
The Deputy Secretary of Defense
The Chairman, Joint Chiefs of Staff
The Director, CIA
The Deputy Administrator, AID
The Deputy Director (Policy and Plans), USIA,
Mr. Burnett Anderson
The Staff Director

E - Mr. Solomon
ARA - Ambassador Gordon
EUR - Mr. Stoessel
White House - Mr. Bator
Treasury - Mr. Barr, Mr. Sullivan

A) With respect to the NATO Military Payments Union
proposal it was decided:

- a) On the assumption that there will be no net
additional exchange cost to the U.S., the
NMPU will be to our advantage;
- b) the U.K. and the U.S. are the most obvious
beneficiaries, acceptance of the proposal
by the FRG is essential, and we must avoid

giving

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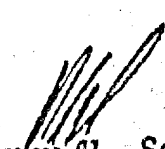
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S E C R E T

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giving the Germans the impression of joint Anglo-American pressure;

- c) the projected visit of Secretary McNamara to Bonn in July (at the invitation of von Hassell) might offer the best opportunity for consultations with the FRG on the NMPU.
 - d) IRG/EUR will assess the results of the Wilson-Erhardt meeting in London (May 23), will prepare a negotiating schedule and will submit a recommendation to the SIG.
 - e) whether or not it is feasible to consult with the FRG on this subject beforehand, a general statement should be made by the U.S. at the NATO ministerial meeting in Brussels (June 6-8) on the desirability of neutralizing the balance of payments aspects of defense expenditures.
- B) Discussed with Ambassador Gordon the plans for the withdrawal of the IAPF from the Dominican Republic.


Harry M. Schwartz
Staff Director, SIG

S E C R E T

18 May 1966

MEMORANDUM FOR:

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25X1A Attached are some hastily drafted comments on the NATO Military Payments Union Plan. They were requested by [REDACTED] late Friday afternoon 13 May and drafted in the main by ORR Monday morning 16 May to meet a before noon deadline. I gather they were for Mr. Helms' use at the SIG meeting on Tuesday 17 May which was to consider the proposal.

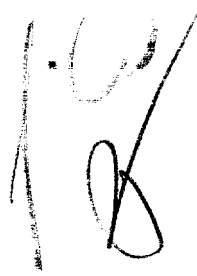
I am not too happy with the comments and feel we could have done a better job with a little more time and thought.

I wonder if in the future when you receive any papers from the IRG mill which might later surface at the SIG meeting and upon which we might be asked to comment, you could let us have an advance look at them.

We would then be in a better position to offer comments on short notice when required.

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REMARKS:  STATINTL		
FROM: O/DDI - [REDACTED]		
ROOM NO.	BUILDING	EXTENSION 5338

STATINTL

FORM NO 241
1 FEB 55

REPLACES FORM 36-8
WHICH MAY BE USED.

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